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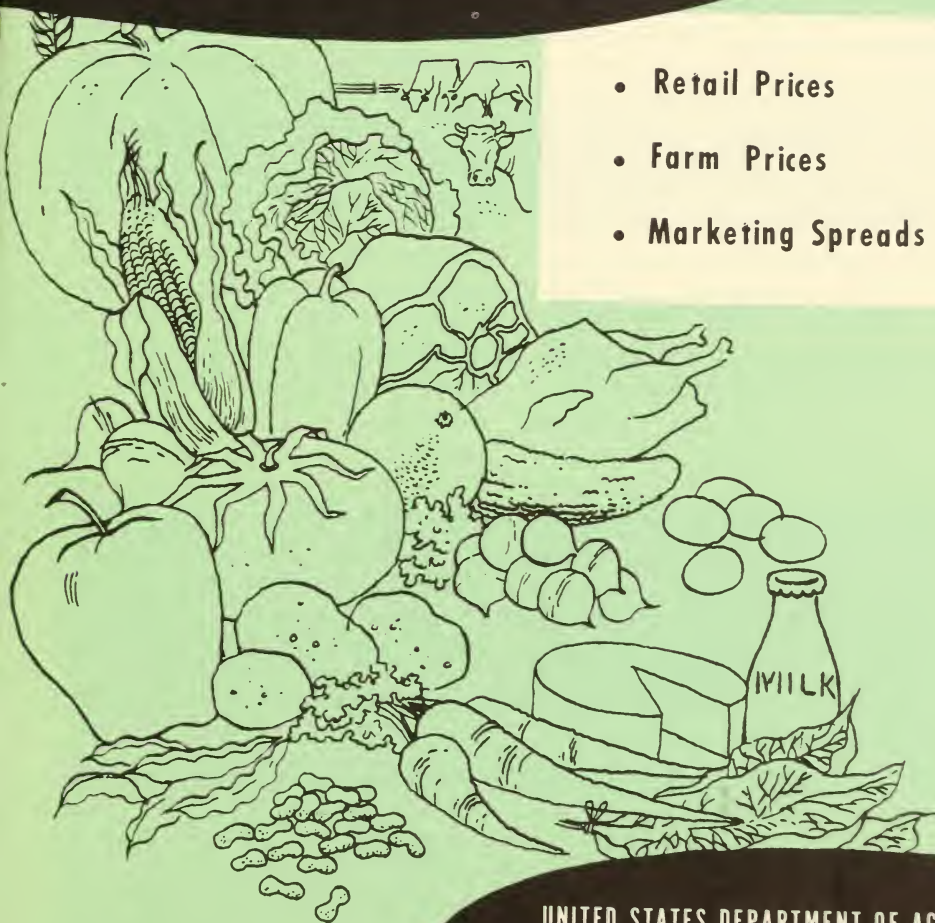
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1965

ORDS

FOOD COSTS

- Retail Prices
- Farm Prices
- Marketing Spreads



UNITED STATES DEPARTMENT OF AGRICULTURE
Economic Research Service
Washington, D. C.

MISCELLANEOUS PUBLICATION NO. 856

Everyone is concerned about food costs, in one way or another. The consumer's food dollar pays for the services of the many different groups in the economy that produce, process, and distribute our food supply. It pays for the workers in agriculture and for the services, supplies, and equipment used in farming. It pays for processing, transporting, wholesaling, retailing, and other marketing services. The money the consumer spends for food becomes income to the farmer and the food industry worker. So farmers, consumers, and market agencies are all interested in how the food dollar is distributed.

This publication summarizes major trends in farm and retail prices of food, marketing charges, and the relation between food costs and consumer income. It shows, for example, that marketing charges have increased since 1947. But prices received by farmers for

food products have declined. Retail food prices have increased less than consumer prices generally. Prices marketing firms pay for goods and services have risen steeply. But improvements in efficiency of marketing firms have kept costs from rising as much as prices. Thus, gains in output of marketing services per man-hour have held the rise in labor costs per unit of product to about one-third the rise in employees' hourly earnings.

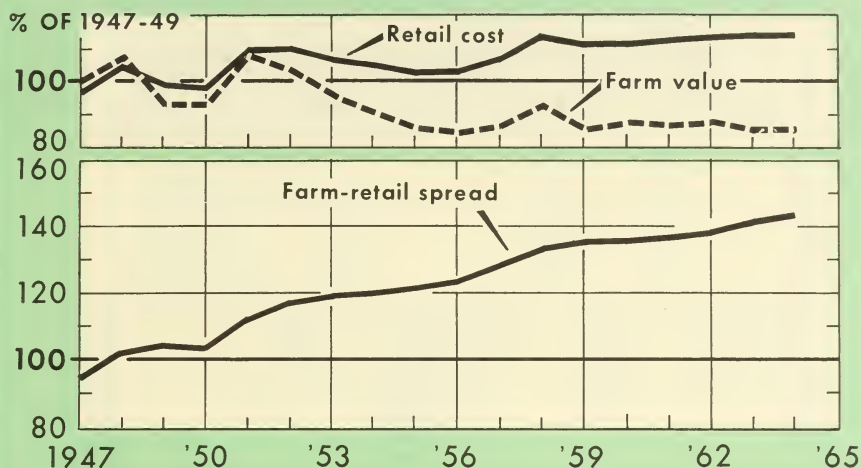
The total bill for marketing food in 1964 was 5 times that in 1940, reflecting rising unit marketing charges, an expanding volume of food marketed—caused mainly by the growing urban population—and the addition of marketing services per unit of product. Incomes per capita have risen more than food prices, however, so a year's income or an hour's work buys more food and marketing services than ever before.

MARKETING CHARGES include all charges by marketing agencies for moving products from the farmer to the consumer, including those for assembling, processing, transporting, and distributing. These charges are measured by the spread between the retail price and the farm value. The **FARM VALUE** is the return to the farmer for farm products equivalent to those bought by consumers.

Revised August 1965

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RETAIL COST FOR MARKET BASKET, FARM VALUE, AND SPREAD



ANNUAL PURCHASES OF FARM FOODS PER HOUSEHOLD IN 1960-61 BY URBAN WAGE-EARNER AND CLERICAL-WORKER FAMILIES AND SINGLE WORKERS LIVING ALONE. 1964 PRELIMINARY.

U. S. DEPARTMENT OF AGRICULTURE

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Rise in Marketing Charges Keeps Retail Food Prices Up

Retail prices of food products originating on American farms have been climbing slowly much of the time since World War II. But prices farmers received for these products have declined. Rising marketing charges have prevented retail food prices from

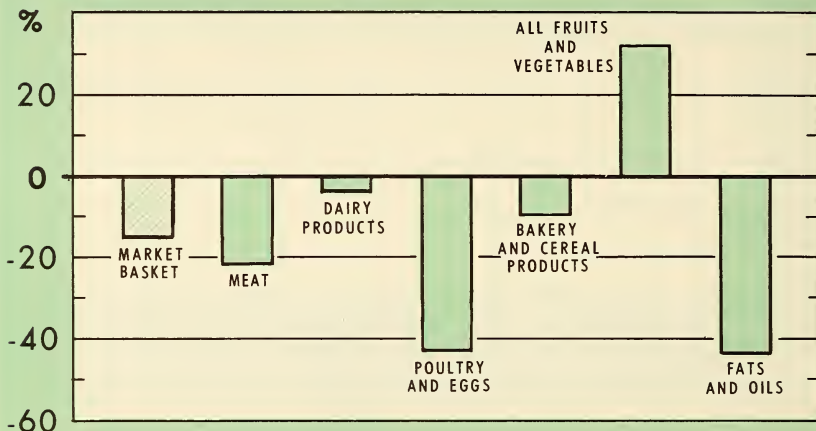
declining with farm prices. In 1964, retail prices of farm-originated foods averaged 14 percent higher than in 1947-49. Their farm value, however, was 15 percent lower than in the early post-war period. Marketing charges were up 43 percent.

The FARM-FOOD MARKET BASKET contains the average quantities of farm-originated foods purchased annually in 1960-61 per household by urban wage-earner and clerical-worker families and single worker living alone. It does not include imported foods or other foods not originating on American farms. The foods in the market basket are valued at retail store prices.

For Most Food Product Groups: Farm Values Down, Marketing Charges Up

For Market Basket of Farm Foods

CHANGE IN FARM VALUE OF FOODS 1947-49 to 1964



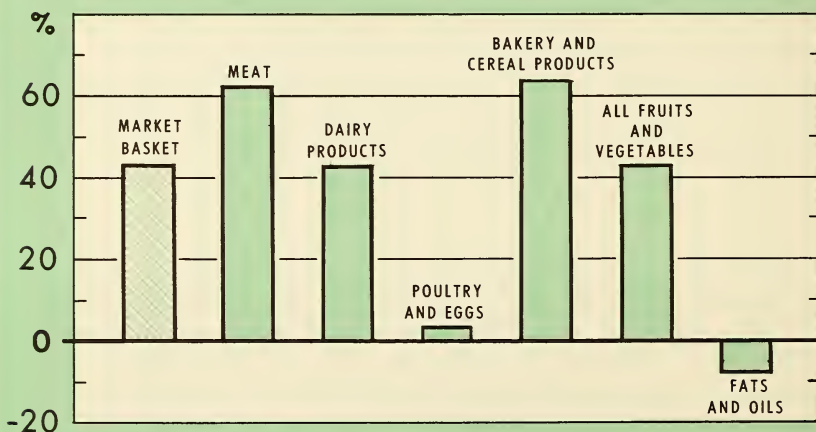
ANNUAL PURCHASES PER HOUSEHOLD BY URBAN WAGE-EARNERS AND CLERICAL-WORKERS IN 1960-61.

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For Market Basket of Farm Foods

CHANGE IN MARKETING CHARGES 1947-49 to 1964

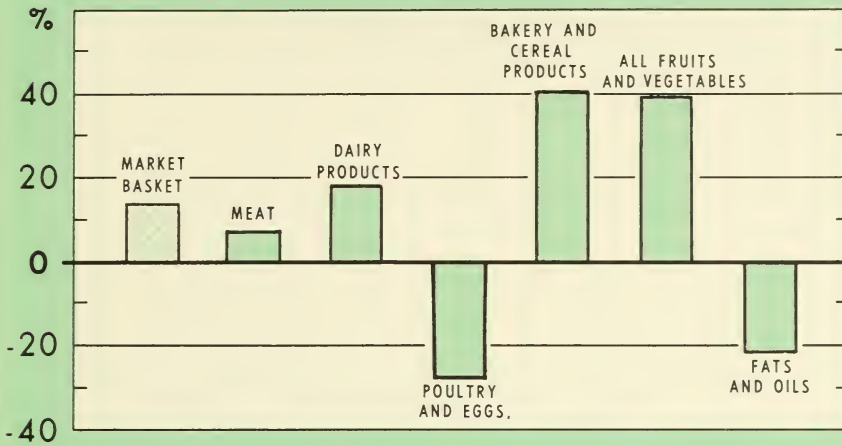


ANNUAL PURCHASES PER HOUSEHOLD BY URBAN WAGE-EARNERS AND CLERICAL-WORKERS IN 1960-61.

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CHANGE IN RETAIL COST 1947-49 to 1964



ANNUAL PURCHASES PER HOUSEHOLD BY URBAN WAGE-EARNERS AND CLERICAL-WORKERS IN 1960-61.

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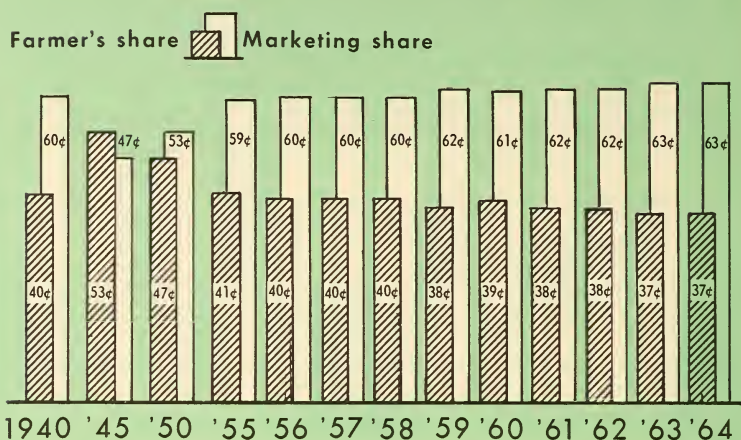
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Rise in Retail Cost of Most Food Product Groups

Farm values of all groups of products in the market basket except fruits and vegetables were lower in 1964 than in 1947-49. Decreases resulted partly from increases in quantities marketed relative to demand. Marketings increased most for the poultry and eggs and fats and oils groups and least for the bakery and cereals, fruits and vegetables, and

dairy products groups. For most product groups, the reduction in the farm value was more than offset by an increase in marketing charges (the farm-retail spread). Thus, the retail cost was higher for each product group except poultry and eggs and fats and oils. Marketing charges dropped for fats and oils, rose less than 5 percent for poultry and eggs.

FARM AND MARKETING SHARES OF RETAIL FOOD DOLLAR *



* DATA FOR MARKET BASKET OF FARM FOODS BASED ON ANNUAL AVERAGE 1960-61 PURCHASES PER HOUSEHOLD.

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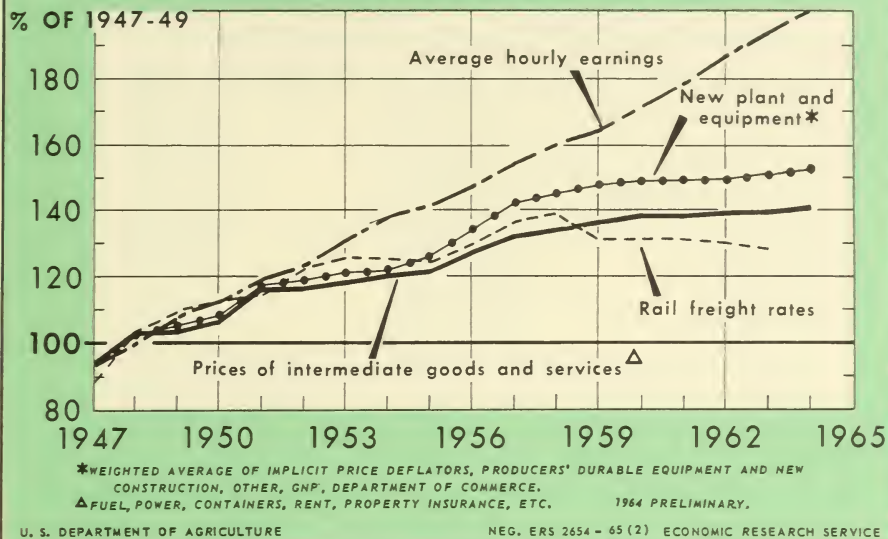
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Rising Marketing Charges, Declining Farm Prices Reduce Farmer's Share

Prices received by farmers for food products rose faster than marketing charges from 1940 to 1945, increasing the farmer's share of the retail food dollar. In 1945, farmers received a record 53 cents of the dollar spent by consumers for farm foods in retail food stores. But the almost steady climb in

marketing charges and the downward trend in farm prices after 1948 reduced the farmer's share to 37 cents in 1963 and 1964. This was the smallest since 1934, when it was 34 cents. The increase in marketing charges did more to reduce the farmer's share than the decrease in his prices.

PRICES OF INPUTS USED BY FOOD MARKETING FIRMS

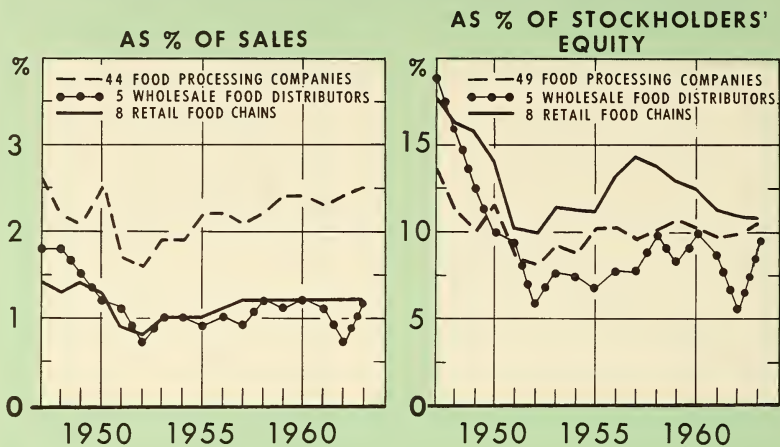


Rising Prices of Inputs Cause Increase in Marketing Charges

Increases in marketing firms' costs have accounted for the rise in food marketing charges since World War II. Hourly earnings of employees have risen steadily. Prices of containers, packaging materials, fuel, and many goods and services used by marketing firms are much higher now than in 1947-49, although many prices have been relatively stable in

recent years. Rising prices of new plant and equipment have boosted marketing firms' depreciation charges. Transportation charges, interest rates, taxes, and many other costs have risen substantially. Though railroad freight rates have declined in recent years, their average level remains much higher than in the early postwar years.

PROFITS OF LEADING CORPORATIONS MARKETING FOOD PRODUCTS



PROFITS LESS TAXES ON INCOME.

DATA COMPILED FROM COMPANY ANNUAL REPORTS AND FINANCIAL PUBLICATIONS.

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Profits as Percentage of Sales Up Slightly Since 1952

Leading corporations processing food products have had higher profit ratios in recent years than in the early 1950's, when they declined sharply. After-tax profits of 44 food processing corporations averaged 2.4 percent of sales in 1960-63 compared with 1.9 percent in 1950-53. After-tax profits of these corporations and 5 others averaged 10.1 percent of stockholders' equity in 1960-63 compared with 9.4 percent in 1950-53.

Profits after taxes for 8 leading retail food chains averaged 1.2 percent of sales in 1957-63 versus 1.0 percent in 1950-53. However, profits as a percentage of stockholders' equity dropped each year in 1957-63 and averaged 11.4 percent in 1960-63, same as in 1950-53.

Profits of food marketing corporations before income taxes have made up 5 to 6 percent of the bill for marketing domestic farm foods in recent years.

In Food Marketing

**UNIT LABOR COSTS RISE LESS THAN
HOURLY EARNINGS, 1947-49 to 1964**



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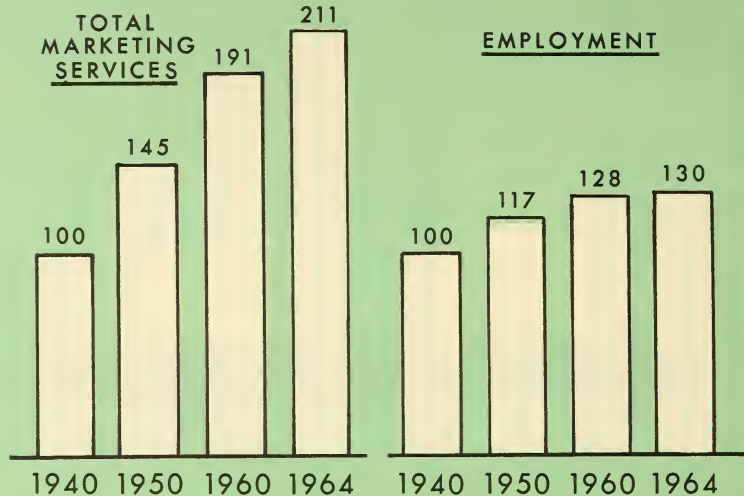
**Increased Productivity Slows Rise
in Marketing Charges**

By improving efficiency, marketing firms have been able to make a profit without raising marketing charges as much as the increase in employees' average hourly earnings. Charges for marketing farm-originated foods per unit of product averaged 43 percent higher in 1964 than in 1947-49. Average hourly earnings, including fringe benefits, doubled during this period. However, increased output of marketing services per man-hour kept

labor costs per unit of product from rising more than 36 percent. Gains in productivity resulted mainly from technological improvements in marketing facilities and in production and distribution practices, from increased skill and capability of management and workers, and from economies of scale. Increases in the proportion of higher skilled employees in the work force caused part of the rise in average hourly earnings.

INDEX OF MARKETING SERVICES

1940=100



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Services Provided by Marketing System Increase More Than Employment

The volume of services provided by marketing firms in assembling, processing, and distributing domestic farm-originated foods to civilian consumers in this country more than doubled from 1940 to 1964. This increase resulted from growth in the volume of products handled and from an increase in marketing services per unit of product. Much of the increase in services per unit came in the form of more meals eaten in restaurants and other eating places and more packaging, processing, and other marketing operations that provide conveniences and improve quality.

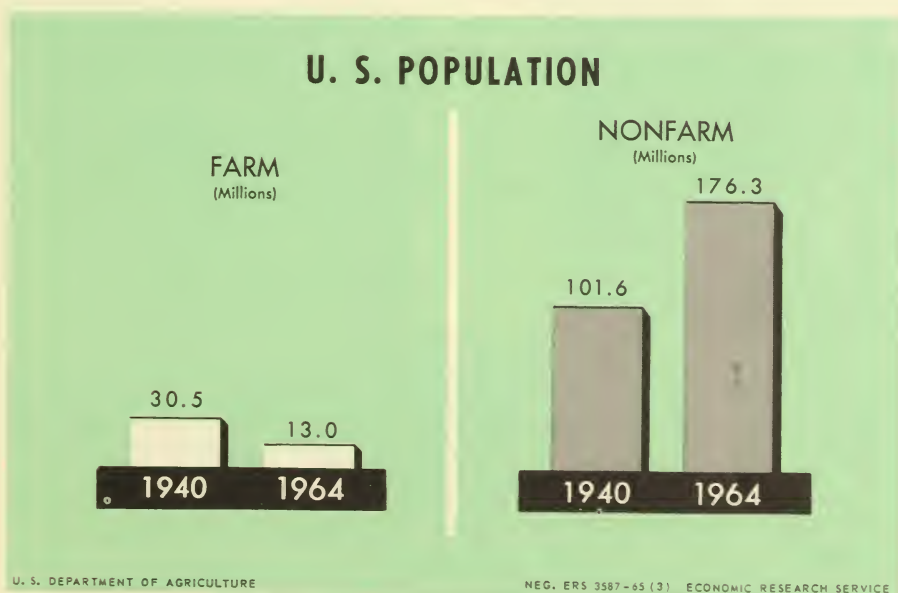
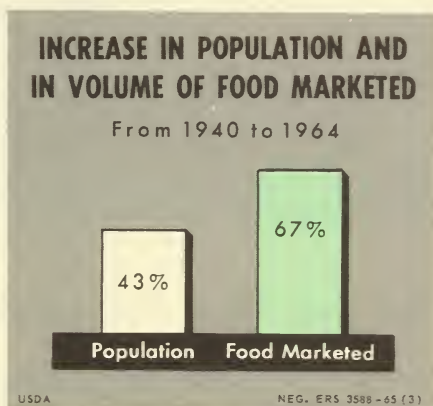
Not all services add to consumer costs. The extra cost of processing and packaging, for example, may be offset by reduction in waste and spoilage and in shipping and handling costs.

Although marketing services more than doubled, the number of persons employed by firms to provide these services increased by less than a third from 1940 to 1964. Moreover, hours worked per week decreased during this period. Improved output of marketing services per man-hour kept employment from rising as much as the volume of marketing services.

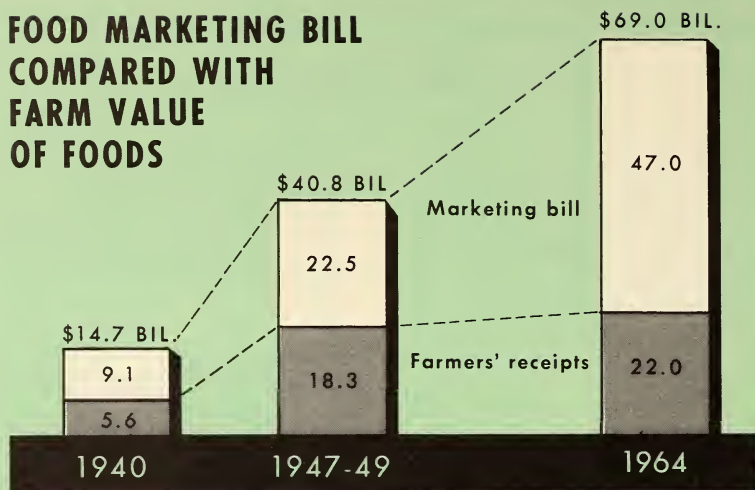
Quantity of Farm Food Marketed Increases More Than Population

The quantity of domestic farm foods sold to civilian consumers in this country increased 67 percent and population 43 percent from 1940 to 1964. Marketings increased more than population, mainly because a larger proportion of the food products produced went through the marketing system. Movement of farm people to the city increased the proportion of food marketed, since these people bought much of the food they formerly produced on their farms. However, both farm and nonfarm people now buy a larger proportion of their food than they did before World War II. This shift to purchased food also has been a factor increasing

the volume of food marketed. The farm population decreased 17.5 million from 1940 to 1964, and the nonfarm population increased about 75 million.



FOOD MARKETING BILL COMPARED WITH FARM VALUE OF FOODS



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National Farm Food Marketing Bill Up \$38 Billion

Not only have marketing costs per unit risen, but the volume of products handled has increased and more services have been provided by the marketing system. Consequently, the total bill for marketing domestic farm food products sold to civilian consumers in this country increased from \$9.1 billion in 1940 to \$47.0 billion in 1964. Farmers' receipts

from sales of these products climbed from \$5.6 billion in 1940 to \$22.0 billion in 1964, while consumer expenditures jumped from \$14.7 billion to \$69.0 billion. During the last 10 years, the marketing bill and consumer expenditures gained each year. In 1955, 1959, and 1963, farmers' receipts dropped; they varied from \$18.3 billion in 1955 to \$22.0 billion.

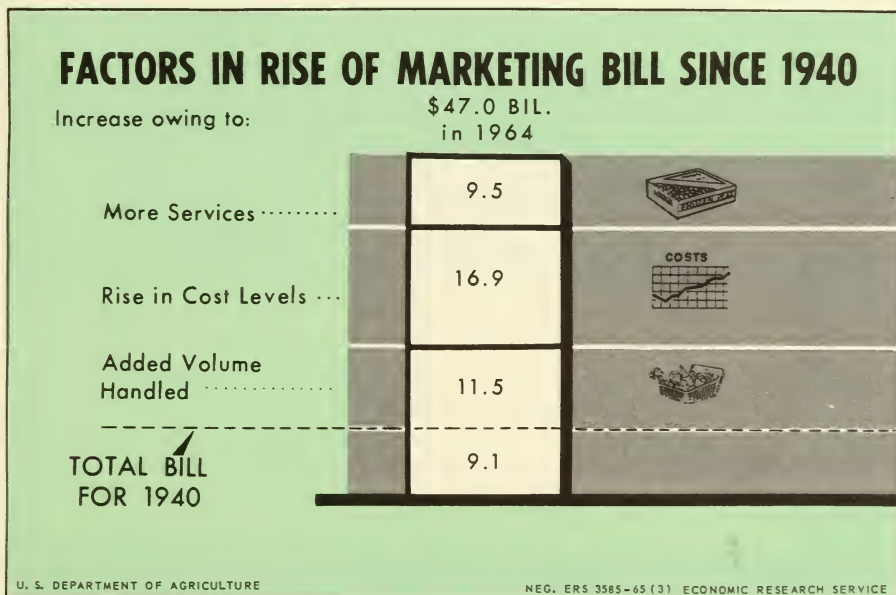
The marketing bill includes all charges for marketing food products originating on American farms and sold to civilian consumers in this country. Food sold in restaurants and other eating places and that sold at less than retail prices is valued at the point of sale.

Rising Unit Costs Account for Nearly Half of Increase in Marketing Bill

The chart below shows factors that accounted for the increase of about \$38.0 billion in the marketing bill from 1940 to 1964. Charges for performing marketing operations rose 147 percent per unit of product marketed, and the volume of food marketed increased 67 percent. This increase in unit marketing charges resulted from the general rise in costs and profits since 1940. Increases in unit charges and volume boosted the marketing bill by about \$28.0 billion. The proportion of this

increase contributed by each factor cannot be precisely ascertained, but it is estimated that rising unit marketing charges accounted for approximately \$16.9 billion and expanding volume for \$11.5 billion.

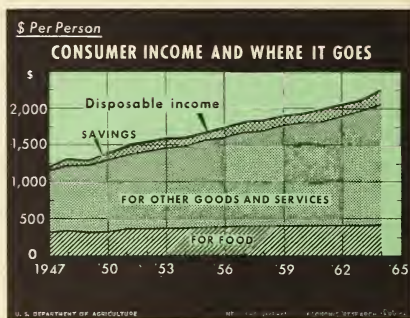
The remaining \$9.5 billion of the rise represents payments by consumers for increases in services per unit of product handled. Increased services include more meals away from home, more transportation, refrigeration, packaging, processing.



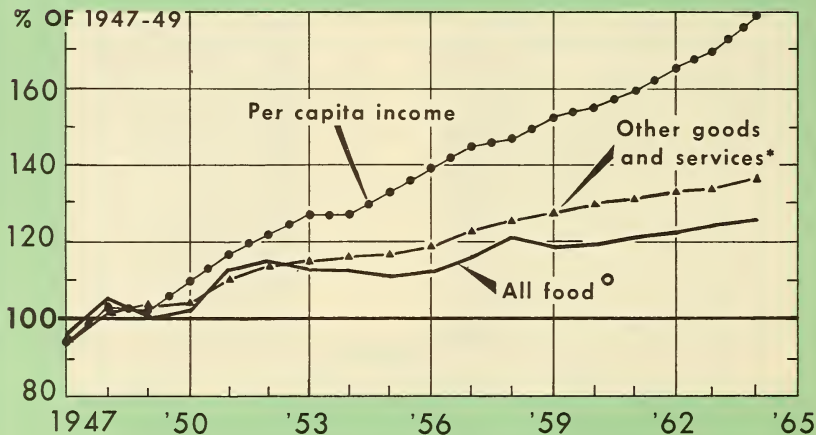
Consumers Spend Decreasing Share of Income for Food

Consumers spent \$417 per person for food in 1964, up 31 percent since 1947-49. But the 1964 expenditure represented less than 19 percent of their disposable income, compared with 26 percent in 1947-49. Thus, the food bill did not rise as much as disposable income, though consumers were shifting to more expensive foods and were buying more marketing services. Retail food prices did not increase as fast as disposable income per person. Expenditures for other goods and services per person increased at a faster rate than food expenditures, partly because retail prices of those items went up

more than food prices. Retail food prices increased less, mainly because of decreases in prices received by farmers.



CONSUMER PRICES AND DISPOSABLE INCOME PER CAPITA



* BLS INDEX OF RETAIL PRICES OF ALL ITEMS LESS FOOD.

° BLS RETAIL FOOD PRICE INDEX INCLUDING MEALS EATEN AWAY FROM HOME.

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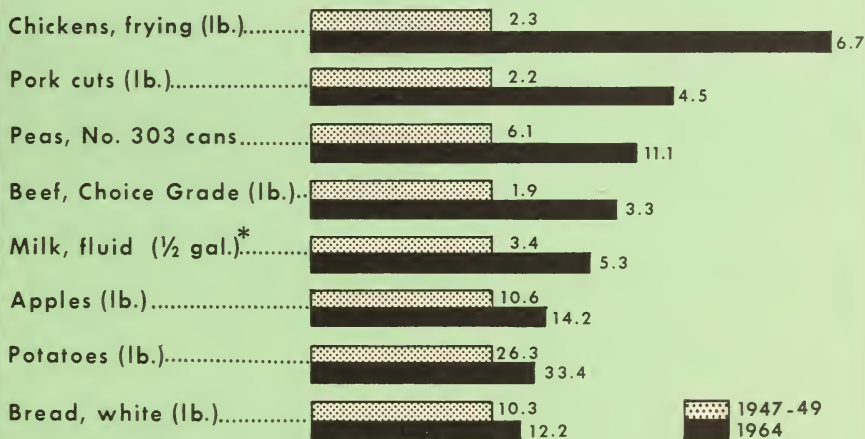
An Hour's Labor Buys More Food

Wages have risen at a faster rate than retail food prices since World War II. Thus, with an hour's wages a factory worker could buy more of most foods in

1964 than he could in 1947-49. He could, for example, buy 3.3 pounds of beef in 1964, compared with an average of 1.9 pounds in 1947-49.

QUANTITIES OF FOOD 1 HOUR OF FACTORY LABOR WILL BUY

1947-49 and 1964



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OTHER EXAMPLES OF TODAY'S INCREASED MARKETING SERVICES

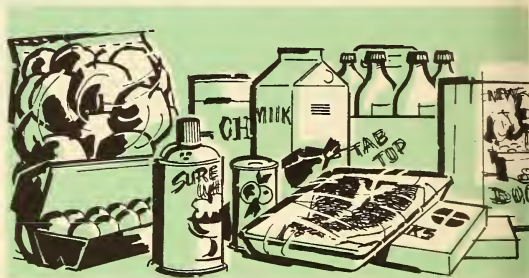
More resources used in maintaining and improving quality and in developing new products to satisfy consumer taste.



Consumers eat more meals away from home.



More foods are being packaged-- many in more convenient and quality-maintaining packages.



Many more products now require less home preparations.



